Argus Media Ltd.
Lacon House, 84
Theobald`s Road
London, WC1X 8NL

Attn: Freddie Staermose
Freddie.staermose@argusmedia.com

BY EMAIL AND COURIER MAIL

26 January, 2018

Dear Mr. Staermose,

RE: Amendments to specifications for the Argus CIF ARA and FOB Richards Bay 6000 price assessments

Reference is made to your notification received by our office on 18.12.2017 (the "Notification) from Mr. Dan Hayes Senior Editor, International Coal Pricing of Argus Media Ltd. (the "Argus").

It is understood that Argus proposes to amend its specifications for CIF ARA (described as the API2 Coal Index) and FOB Richards Bay (described as the API4 Coal Index) basis calorific value 6000 NAR as follows:

(I) CIF ARA

Current Argus CIF ARA specification:

Assessment		NCV	Sulphur	Ash	Moisture	Volatile Matter	HGI	Cargo Size
ARA (Rotterdam area)	Basis	6000 kcal/kg	<1%	11-15%	12-15%	22-37%	45-70	50`000 – 150`000 MT
	Rejection Limits	5850 kcal/kg	>1%	>15%	>15%	<22% or >37%	<44	

Proposed Argus CIF ARA specification (highlighted in red for easy reference):

Assessment		NCV	Sulphur	Ash	Moisture	Volatile Matter	HGI	Cargo Size
ARA (Rotterdam area)	Basis	6000 kcal/kg	<1%	11-17%	12-17%	21-37%	45-70	25`000 – 150`000 MT
	Rejection Limits	5700 kcal/kg	>1%	>17%	>17%	<21% or >37%	<44	

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(II) FOB Richards Bay

Current Argus Richards Bay 6000 specification:

Assessment		NCV	Sulphur	Ash	Moisture	Volatile Matter	HGI	Cargo Size
Richards Bay 6`000	Basis	6000 kcal/kg	<1%	11-15%	12-15%	22-37%	45-70	50`000 – 150`000 MT
	Rejection Limits	5850 kcal/kg	>1%	>15%	>15%	<22% or >37%	<44	

Proposed Argus Richards Bay 6000 (highlighted in red for easy reference):

Assessment		NCV	Sulphur	Ash	Moisture	Volatile Matter	HGI	Cargo Size
Richards Bay 6`000	Basis	6000 kcal/kg	<1%	11-17%	>13%	21-38%	45-70	50`000 – 150`000 MT
	Rejection Limits	5700 kcal/kg	>1%	>17%	>13%	<21% or >28%	<45	

It is intended that:

- Daily physical indices will change to the new specification on Monday, 30 December 2019;
- Forward prices for periods loading or delivering in 2020 and beyond will be published according to the new specification; and
- That reduction of the min cargo size for its CIF ARA price assessment to 25`000 MT will become effective as from 26 February 2018.

As an active international coal market participant and having regard to the fundamental changes proposed by Argus to its specifications, SUEK AG hereby submits its formal comments on the Argus`s proposal as follows:

COMMENT:

We do hope that our comments will be considered, and that these comments are not being sought only for your own statistical purposes.

Our general position towards the proposed changes is strongly negative. You should note that not only traders are opposed to your proposed changes, but also so are participants who are on the other side of the coal market i.e. consumers and utilities. This conclusion is a result of our own survey that allowed us to form a more or less objective view on the proposed changes.

In our view there is no doubt that the new changes will lead to a fall in the indices. We expect both indices to fall after of the introduction of the new specifications relative to their levels had there been no such changes, as cheaper coal that would otherwise have not been included in the indices drags the value of those indices down. Consequently the companies which have long term physical contracts with contract prices linked to API2/API4 indices will be heavily impacted and prejudiced adversely: the sellers or suppliers under these physical contracts will have to accept huge losses on their books. In this likely scenario we believe that some fundamental principles of the market will be jeopardized, and those market participants who relied on and keep relying on publications of your indices will be placed in a situation where their business trust in your indices will no longer exist.

We expect, and that expectation is also confirmed by our own survey, that, on or before the introduction of the new specifications by your company, number of market participants will look for alternative market benchmarks for their contracts because of this loss of trust and absence of any guarantee that in the future new changes which can affect their financial positions will not be unconditionally presented by you. Without going into a detailed review, such alternative benchmarks could be, for example, coal indices published by globalCOAL or by Platts. Please note that SUEK is not against changes where they are needed or necessitated but we are against a change that is likely to bring advantage to one group of market players while placing the other part of the market into an obvious losing position.

Another aspect related to expanding the specifications in each index is that it will create confusion and uncertainty in the coal market. It is a well-established fact that coal with lower CV value is traded with a considerable discount to 6000 CV coal. By way of example, RB3 (5500 NAR) can be traded $10 lower than RB1 (6000 NAR). For deliveries to Europe 5700 CV coal is usually traded with a $3-4 discount per MT comparing to the price for 6000 CV coal. This is too big difference in prices in order to gather such wide range of coal quality under one index.

Market participants will be confused in respect of how to price their coal against this index. Hypothetically: if in some period of time there is only physical trades with 5700 CV coal (and no trades for 6000 CV coal) then a supplier of high CV coal shall require higher premium to index for his coal. But if in some period of time there are only physical trades with 6000 CV coal (and no trades for 5700 CV coal) then premium for the same high CV coal shall be lower. But it is not possible to predict what trades will dominate in the future in particular period and therefore both sellers and buyers will be confused and not able to determine the pricing for certain coal brand correctly versus the index.

Thus we see no obvious business reason supporting the proposed changes. As we informed you above our firm conducted its own survey by interviewing a broad range of market participants (to ensure an objective outcome, these included consumers and traders as well as producers) and we can assure you that the major part of these respondents do not support the proposed changes either. Therefore your statement that 95% of the market players support the idea of amending the index specifications is somewhat far from being that representative.

COUNTER PROPOSAL:

In view of the comments raised above by us we would like to stress that SUEK is always seeking to find a compromise in relation to any solution that would be acceptable to all market players. In this sense we understood your initiative as imminent fact (subject to effective dates).

SUEK AG

As an alternative to the amendment of the existing index specifications we propose that the new specifications shall form new index(s), say API[X], thereby allowing market players to select the particular index that can best serve their business requirements. In relation to that new index(s) the methodology proposed by you can be applied, i.e. all range of physical coal deals (with CV from 5700 till 6900) will be captured and counted for the purpose of index evaluation. If, as you assert, 95% of the market players support the proposed changes to the specifications then all liquidity will, after some transition period, automatically flow to the segment of the new index(s) whereupon API2 and API4 will be naturally disregarded by the market participants.

We understood that this proposal has already received your feedback which was negative in essence. Your principal concern was that creating new index(s) would lead to further segmentation of the market and consequently to a reduction of the liquidity of each index. However our position remains firm as to this concern: provided you give market participants flexibility to select the most suitable index for their business, and assuming your expectation that overwhelming majority of market players will approve of the new changes is correct, the liquidity of each index will in that case be naturally assured. We believe that the above solution is absolutely fair and reasonable, not only because such an approach can actually prove what indexes are demanded by the market but also because it would once again demonstrate that the interests of each and every market participant(s) have been taken into account.

We will be happy to discuss our proposals with your further.

Yours Faithfully,

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Youri Filippov, CEO

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Alan Goh, Head of Far-East and Pacific Trading